



SENATE REPUBLICAN

POLICY COMMITTEE

Conference Report Highlights

May 17, 2007

Highlights of the Conference Report to Accompany S. Con. Res. 21, Concurrent Budget Resolution for Fiscal Year 2008

The Conference Report, H. Rept. 110-153, was filed on May 16, 2007. No House or Senate Republican signed the conference report.

Noteworthy

S. Con. Res. 21 sets total spending in fiscal year 2008 at \$2.960 trillion and total revenues at \$2.678 trillion.

- **Tax Increases:** S. Con. Res. 21 assumes \$736 billion more in taxes over five years compared to the extension of current tax law. Presumably, a significant portion of this revenue will come from allowing most of the 2001 and 2003 tax relief provisions to expire.
- **Reconciliation:** S. Con. Res. 21 includes a reconciliation instruction to the Senate Health, Education, Labor, and Pensions Committee to reduce the deficit by \$750 million over five years.
- **Budget Enforcement:** S. Con. Res. 21 includes budget points of order that are designed to reduce the deficit through tax increases rather than spending restraint. Three are new points of order that would require 60 votes to extend or make permanent the 2001 and 2003 tax relief because each point of order would need to be waived. Only a simple majority is needed to raise taxes.
- **Discretionary Spending:** S. Con. Res. 21 provides \$954 billion (after cap adjustments) in discretionary budget authority for FY 2008, which is \$21 billion above the President's request. S. Con. Res. 21 also provides for \$2 billion more in advance appropriations than the President's budget. Over the 2008-12 period, discretionary spending increases by \$205 billion above the President's request. Within this allocation, many domestic spending programs are increased. The budget fully funds the President's defense request and the FY08 and FY09 emergency supplementals.
- **Mandatory Spending:** S. Con. Res. 21 does not propose any mandatory savings. Rather, S. Con. Res. 21 includes \$389.6 billion for Medicare in 2008, an increase of \$24 billion (+6.6 percent) over 2007. The average annual increase in Medicare spending during the five-year budget window is 5.3 percent.
- **Reserve Funds:** S. Con. Res. 21 creates 23 deficit-neutral reserve funds. The Chairman of the Budget Committee may adjust committee allocations if legislation meets the requirements of the reserve fund and is deficit-neutral. These reserve funds allow for tax increases to offset spending increases.
- **House and Senate Action:** The House was slated to take up the Conference Report to S. Con. Res. 21 today. By unanimous consent, the Senate will also consider it today.

Bill Provisions

Budget Enforcement

Enforcement of the budget resolution is based primarily upon 60-vote budget points of order and reconciliation procedures. S. Con. Res. 21 includes eight new budget points of order (and extends certain existing ones). Sections 201, 203, and 205 expire in ten years. Sections 202, 204, 206, and 209 have no expiration dates. An expiration date is not relevant for Sections 207 and 208.

Pay-as-you-go (Section 201)

S. Con. Res. 21 would change the way the pay-as-you-go (PAYGO) rule operates. The revised rule establishes a 60-vote point of order against legislation that would increase direct spending or reduce revenues without offsets relative to the CBO baseline for any of the following time periods: the six-year period from FY07-12, or the eleven-year period from FY07-17.

Section 201 replaces the current pay-as-you-go rule, created in the FY04 Budget Resolution. The rule established a 60-vote point of order against legislation that would increase the deficit beyond the level assumed in the most recently agreed to conference report on the budget, currently the FY06 budget resolution.

The key difference between current PAYGO and the proposed PAYGO is that the current PAYGO allows for deficits up to the amount assumed in the budget resolution. The proposed PAYGO does not allow for any deficit beyond the CBO baseline. For more information on PAYGO, please see “Democrats’ PAYGO will not Restore Fiscal Responsibility,” January 17, 2007.

The practical effect of this change is that Congress cannot protect the extension of tax relief from PAYGO in the budget resolution.

Limitation of Reconciliation Legislation (Section 202)

S. Con. Res. 21 creates a 60-vote point of order against reconciliation instructions that would increase the deficit or reduce a surplus. Had such a rule been in existence in 2001 or 2003, the Senate might not have been able to pass the President’s 2001 and 2003 tax cuts using reconciliation.

Long-term Deficits (Section 203)

S. Con. Res. 21 repeals the current point of order against long-term spending (60 votes to waive) and replaces it with a 60-vote point of order against long-term deficits. The point of order would lie against any measure that increases the deficit more than \$5 billion over any of the four ten-year periods over 2018-2057. Such a rule allows for increased spending to be offset with increased revenues.

Emergency Designation (Section 204)

S. Con. Res. 21 continues a 60-vote point of order against emergency designations. The new rule exempts all emergency spending from PAYGO and limitations set in the budget resolution.

Emergency requirements, as designated by Congress, must meet the following five standards: necessary, sudden, urgent, unforeseen, and not permanent.

Repeal of Existing Points of Order (Section 205)

S. Con. Res. 21 repeals the 60-vote waiver threshold for two existing points of order: 1) the unfunded mandates point of order and 2) the spending, revenue or debt legislation without a budget resolution point of order. The unfunded mandates point of order prohibits consideration of any committee-reported legislation, except reconciliation bills, unless the CBO Federal mandates estimate has been printed in the committee report or the Congressional Record and contains an intergovernmental mandate in excess of the statutory limit (\$50 million per year as adjusted for inflation; currently \$66 million for FY07) for the first fiscal year or any of the following four fiscal years. The spending, revenue, or debt legislation rule prohibits consideration of any spending, revenue, or debt legislation until the budget resolution for the upcoming fiscal year has been agreed to.

Advance Appropriations (Section 206)

S. Con. Res. 21 extends the current advance appropriations point of order. The point of order prohibits the consideration of advance appropriations, except for those provided for FY09-FY10 for specified accounts (including the Corporation for Public Broadcasting), which in total cannot exceed \$25.158 billion in the Senate. This amount is \$2 billion above what the limitation has been in recent years.

Discretionary Spending Limits (Section 207)

S. Con. Res. 21 sets caps on discretionary spending for FY07 and FY08. The discretionary spending limit is set at \$950.50 billion in budget authority for FY07 and \$953.05 billion for FY08. These spending limits may be modified for matters relating to: continuing disability reviews and SSI redeterminations, IRS tax enforcement, health care fraud and abuse, unemployment insurance improper payments, and the global war on terror. Emergency spending would be exempt from these limits.

Repeal of Previous Budget Enforcement Tools (Section 201, 203, 204, 206)

S. Con. Res. 21 repeals previous budget enforcement tools, including last year's deeming resolution, which set a 302(a) level— a discretionary top line— for FY07. The specific points of order repealed are the following sections from the FY06 Budget Resolution, H. Con. Res. 95: Sections 401 (advance appropriations), 402 (emergency legislation), 407 (long-term spending), and 505 (PAYGO). All of the aforementioned enforcement tools were replaced with a related budget rule.

Changes in Mandatory Programs (Section 209)

S. Con. Res. 21 creates a new 60-vote point of order rule related to changes in mandatory programs (CHIMPs) in appropriations. The new rule prohibits the consideration of appropriations legislation that increases mandatory spending over 10 years. This section shall not apply to: 1) the current FY07 supplemental; and 2) CHIMPs that have been enacted in each of the three fiscal years.

Reconciliation Instructions

S. Con. Res. 21 instructs the Senate Health, Education, Labor and Pensions Committee to report by September 10, 2007, a bill to reduce the deficit by \$750 million for 2007-2012. As written, the reconciliation instructions do not seek to reduce outlays but rather the deficit.

Resolution Provisions

Total Spending (in billions):

Function	Title	FY07 Enacted	FY08 President's Request	S.Con.Res. 21
050	National Defense	526	507	507
150	International Affairs	29	36	35
250	General Science, Space, and Technology	25	27	28
270	Energy	3	3	3
300	Natural Resources and Environment	31	31	33
350	Agriculture	21	21	20
370	Commerce and Housing Credit	10	10	11
400	Transportation	81	80	83
450	Community and Regional Development	16	13	16
500	Education, Training, Employment, and Social Services	93	83	94
550	Health	268	282	287
570	Medicare	365	386	390
600	Income Security	360	378	381
650	Social Security	588	615	615
700	Veterans Benefits and Services	74	81	85
750	Administration of Justice	46	46	48
800	General Government	18	19	19
900	Net Interest	237	256	256
920	Allowances	1	0	-6
950	Undistributed Offsetting Receipts	-82	-84	-84

Discretionary Spending

The budget provides a binding 302(a) budget authority and outlay allocation to the Appropriations Committee.¹ The 302(a) number is the top level for discretionary spending in a given year. As passed by the Budget Committee, S. Con. Res. 21 provides a 302(a) allocation of \$954.1 billion in budget authority after cap adjustments. Advance appropriations are capped \$25.158 billion in the Senate, a \$2 billion increase over previous years.

¹ The Appropriations Committee subsequently breaks the 302(a) number into twelve 302(b) allocations, which are the allocations to the individual Appropriations Subcommittees.

Reserve Funds

In general, a reserve fund permits the Chairman of the Committee on the Budget to increase the section 302(a) allocation and other appropriate levels set out in this resolution once certain conditions have been met. The authority to make these adjustments is solely within the discretion of the Chairman and may be made when the committee of jurisdiction reports a measure that satisfies all of the conditions set out in the reserve fund.

Generally, these funds allow for increased spending as long as the spending is offset with tax increases or spending cuts elsewhere. As reported out of committee, S. Con. Res. 21 includes 23 deficit-neutral reserve funds.

If all reserve funds were triggered, total spending could increase by \$400 billion, financed by tax increases.

Reserve Fund for SCHIP (Section 301)

Section 301 provides a deficit-neutral reserve fund for legislation to reauthorize the State Children's Health Insurance Program (SCHIP), up to \$50 billion. The legislation must maintain coverage for those currently enrolled in SCHIP, continue efforts to reach uninsured children who are currently eligible for SCHIP or Medicaid but not enrolled, and support states in their efforts to cover more children.

Reserve Fund for wounded service members (Section 302)

Section 302 provides a reserve fund for legislation that improves the medical care of and disability benefits for wounded or disabled military personnel.

Reserve Fund for tax relief (Section 303)

Section 303 provides a deficit-neutral reserve fund for legislation that would provide tax relief, including extensions of expiring tax relief.

Reserve Fund for Medicare (Section 304)

Section 304 provides for three separate deficit-neutral reserve funds for legislation that repeals the non-interference provision (drug-price negotiation) of Medicare Part D, increases the reimbursement rate for physician services, and makes improvements to Medicare Part D for an amount up to \$5 billion. CBO scores the repeal of the non-interference provision as budget neutral, which would result in no savings. Increasing the reimbursement rate for physicians necessarily increases Part B premiums seniors pay monthly.

Reserve Fund for comparative effectiveness (Section 305)

Section 305 provides a deficit-neutral reserve fund for legislation that establishes a new Federal or public-private initiative for comparative effectiveness research.

Reserve Fund for higher education (Section 306)

Section 306 provides a deficit-neutral reserve fund for legislation that would make higher education more accessible and more affordable.

Reserve Fund for the Farm Bill (Section 307)

Section 307 provides a deficit-neutral reserve fund, up to \$15 billion, for legislation that reauthorizes the Food Security and Rural Investment Act of 2002, strengthens agriculture economies, provides agriculture-related tax relief, or improves our environment by reducing our Nation's dependence on foreign sources of energy.

Reserve Fund for energy legislation (Section 308)

Section 308 provides a deficit-neutral reserve fund for legislation that reduces our Nation's dependence on foreign sources of energy, expands production and use of alternative fuels, promotes renewable energy development, or rewards conservation and efficiency.

Reserve Fund for country payments (Section 309)

Section 309 provides a deficit-neutral reserve fund for legislation that provides for the reauthorization of the Secure Rural Schools and Community Self-Determination Act.

Reserve Fund for terrorism risk insurance (Section 310)

Section 310 provides a deficit-neutral reserve fund for legislation that provides for a continued Federal role in ensuring the availability of terrorism insurance after the expiration of the Terrorism Risk Insurance Extension Act.

Reserve Fund for affordable housing (Section 311)

Section 311 provides a deficit-neutral reserve fund for legislation that would establish an affordable housing fund financed by the housing government-sponsored enterprises.

Reserve Fund for Bonneville Power Administration (BPA) (Section 312)

Section 312 provides a deficit-neutral reserve fund for legislation that prohibits the BPA from making early payments on its Federal Bond Debt to the Treasury.

Reserve Fund for Indian claims settlement (Section 313)

Section 313 provides a deficit-neutral reserve fund for legislation that creates an Indian claims settlement fund and extinguishes all claims arising before the date of enactment for various losses, for an amount up to \$8 billion.

Reserve Fund for health care reform (Section 314)

Section 314 provides a deficit-neutral reserve fund, after an SCHIP reauthorization bill is enacted, for legislation that improves health care and provides quality health insurance for the uninsured and underinsured.

Reserve Fund for child care (Section 315)

Section 315 provides a deficit-neutral reserve fund for legislation that provides up to \$5 billion for child care entitlement to states.

Reserve Fund for comprehensive immigration reform (Section 316)

Section 316 provides a deficit-neutral reserve fund for legislation that provides for comprehensive immigration reform, provides for increased interior enforcement through an effective electronic employment verification system, and provides for increased border security and enhanced information technology systems.

Reserve Fund for small business health insurance (Section 317)

Section 317 provides a deficit-neutral reserve fund for legislation that achieves savings by eliminating or reducing improper payments made by agencies reporting improper payments estimates under the Improper Payments Information Act of 2002 and uses such savings to reduce the deficit.

Reserve Fund for manufacturing initiatives in the Senate (Section 318)

Section 318 provides a deficit-neutral reserve fund for legislation that would revitalize the United States' domestic manufacturing sector.

Reserve Fund for Food and Drug Administration (FDA) (Section 319)

Section 319 provides a deficit-neutral reserve fund for legislation that authorizes the FDA to regulate tobacco products and assess user fees on tobacco manufacturers and importers to cover the cost of the FDA regulatory activities.

Reserve Fund for veterans' benefits (Section 320)

Section 320 provides a deficit-neutral reserve fund for legislation that provides for a delay in the implementation of a Medicaid Rule dealing with payment limitations.

Reserve Fund for adjustment (Section 321)

Section 321 provides for a mechanism to allow for limited tax extension only if a surplus is projected by OMB in 2010 for 2012.

**Reserve Fund for San Joaquin River restoration and Navajo Nation water rights settlements
(Section 322)**

Section 322 provides a deficit-neutral reserve fund for legislation related to the San Joaquin River Restoration Settlement Act.

Reserve Fund for selected tax relief policies (Section 323)

Section 323 provides a deficit-neutral reserve fund for legislation that provides for certain tax relief.